

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

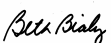
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Charter Township of Orion Oakland County, Michigan

**Financial Report
with Supplemental Information
December 31, 2007**

Charter Township of Orion

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Orion
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Orion (the "Township") as of and for the year ended December 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Orion's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Orion as of December 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Charter Township of Orion
Oakland County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Orion's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

April 21, 2008

Charter Township of Orion

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Orion's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2007:

- State-shared revenue, our largest revenue source in the General Fund, was decreased slightly by the State of Michigan this year by approximately \$23,000 (1.0 percent). This decrease is slightly less than the decrease in 2006.
- Total fund balances related to the Township's governmental funds increased by approximately \$1.1 million. However, this increase was less than 2006 due to the Township's continued investments in capital assets, including improvements to the HVAC at the Senior Center (\$119,500), construction of a multipurpose field at Friendship Park (\$425,600), resurfacing of Pinetree/Flintridge Roads (\$175,600), and improvements to Township gravel roads (\$100,000).
- In 2007, the Township designated an additional portion of fund balance to provide for renovations to the Township Hall buildings (\$74,000), outsourcing human resources function (\$50,000), and the purchase of property (\$82,000) to be completed in 2008.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of Orion Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Township in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside the government.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets (in thousands of dollars) compared to the prior year:

	2007	2006	Change	Percent
Assets				
Current assets	\$ 29,548	\$ 27,770	\$ 1,778	6.4%
Noncurrent assets	21,619	22,025	(406)	(1.8%)
Total assets	51,167	49,795	1,372	2.8%
Liabilities				
Current liabilities	8,601	8,098	503	6.2%
Long-term liabilities	180	156	24	15.7%
Total liabilities	8,781	8,254	527	6.4%
Net Assets				
Invested in capital assets	21,619	22,026	(407)	(1.8%)
Restricted	4,330	3,958	372	9.4%
Unrestricted	16,437	15,557	880	5.7%
Total net assets	<u>\$ 42,386</u>	<u>\$ 41,541</u>	<u>\$ 845</u>	2.0%
	2007	2006	Change	Percent
Revenue				
Program revenue:				
Charges for services	\$ 1,518	\$ 1,539	(21)	(1.4%)
Operating grants and contributions	90	264	(174)	(65.9%)
Capital grants and contributions	812	1,122	(310)	(27.6%)
General revenue:				
Property taxes and related fees	7,173	6,788	385	5.7%
State-shared revenue	2,204	2,195	9	0.4%
Unrestricted investment earnings	1,356	1,240	116	9.4%
Host fees	233	262	(29)	(11.2%)
Other revenue	29	25	4	15.3%
Total revenue	13,415	13,435	(20)	(0.1%)
Program Expenses				
General government	2,467	2,678	(211)	(7.9%)
Public safety	6,454	6,032	422	7.0%
Public works	1,750	1,432	318	22.2%
Health and welfare	152	282	(130)	(46.2%)
Community and economic development	340	179	161	89.7%
Recreation and culture	1,407	1,090	317	29.1%
Total program expenses	12,570	11,693	877	7.5%
Change in Net Assets	<u>\$ 845</u>	<u>\$ 1,742</u>	<u>\$ (897)</u>	(51.5%)

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The Township's total governmental revenues decreased by approximately \$20,000, from \$13.435 million to \$13.415 million (0.1) percent. The largest decreases in revenue occurred in capital and operating grants received by the Township. Charges for services and host fee revenues also experienced a decline from the prior year and may be a reflection of the current economic times. Of the Township's total governmental revenue for fiscal year 2007, property taxes comprised the largest segment, as was the case in 2006.

The Township's total governmental expenses increased approximately \$878,000, from \$11.693 million to \$12.570 million (7.5 percent). Community and economic development expenses increased \$161,000, due to the reclassification of planning department expenses into its own department. Prior year expenses were reported within the building department (public safety). Public works expenses increased from \$1.432 million to \$1.750 million due to money expended for road repairs and maintenance of the Township's gravel roads. The recreation and culture increase of \$317,000 was due mainly to the creation of a multipurpose field at Friendship Park.

Business-type Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets (in thousands of dollars), compared to the prior year:

	2007	2006	Change	Percent
Assets				
Current assets	\$ 33,824	\$ 31,440	\$ 2,384	7.6%
Noncurrent assets	64,565	64,266	299	0.5%
Total assets	98,389	95,706	2,683	2.8%
Liabilities - Current liabilities	1,440	1,481	(41)	(2.8%)
Net Assets				
Invested in capital assets	39,704	39,370	334	0.8%
Restricted	24,272	24,022	250	1.0%
Unrestricted	32,973	30,833	2,140	6.9%
Total net assets	<u>\$ 96,949</u>	<u>\$ 94,225</u>	<u>\$ 2,724</u>	2.9%

Charter Township of Orion

Management's Discussion and Analysis (Continued)

	2007	2006	Change	Percent
Revenue				
Program revenue:				
Charges for services	\$ 7,019	\$ 7,425	\$ (406)	(5.5%)
Operating grants and contributions	536	-	536	100.0%
Capital grants and contributions	1,494	2,514	(1,020)	(40.6%)
General revenue:				
Unrestricted investment earnings	2,830	2,505	325	13.0%
Other revenue	<u>4</u>	<u>-</u>	<u>4</u>	100.0%
Total revenue	11,883	12,444	(561)	(4.5%)
Program Expenses				
Operating expenses other than depreciation	7,397	7,205	192	2.7%
Depreciation	<u>1,762</u>	<u>1,732</u>	<u>30</u>	1.7%
Total program expenses	<u>9,159</u>	<u>8,937</u>	<u>222</u>	2.5%
Change in Net Assets	<u>\$ 2,724</u>	<u>\$ 3,507</u>	<u>\$ (783)</u>	(22.3%)

The Township's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 80 percent of Township residents, which comes from the Detroit water system. We provide sewage treatment to approximately 80 percent of Township residents, through a City of Detroit-owned and operated sewage treatment plant, administered through Oakland County. Water and sewer usage and capital contributions were down in 2007 from 2006, due to a decline in new development and hook-ups to the water and sewer system. However, charges for services reflected an increase due to state grant dollars received. Investment income increased \$325,000, from \$2.505 million to \$2.830 million (13.0 percent), due to the maturity of low-income investments that were reinvested at current interest rates.

The Township's Funds

Our analysis of the Township's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Orion Township board of trustees creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as property tax millages. The Township's major funds for 2007 include the General Fund, the Fire Protection Fund, and the Police Protection Fund.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the Township's governmental services. However, the most significant governmental services are police and fire protection, which incurred expenses of \$5.126 million in 2007, an increase of \$375,153 (7.8 percent). In 2007, the fire department purchased new fire protective clothing which was primarily reimbursed by a federal grant. These two services are entirely supported by special public safety millages, which are recorded in the respective Public Safety Funds. In addition, there are two capital improvement funds: the General Capital Improvement Fund and the Fire Capital Improvement Fund. The Township board designated \$3.8 million from the General Capital Improvement Fund in 2007 for renovations to the Township Hall, extension of the utility corridor trail (Polly Ann Trail Extension), construction of an amphitheatre, and improvements to Baldwin Road. The Fire Capital Improvement Fund received \$650,000 in 2007 from the Fire Protection Fund to be used for future capital improvements.

General Fund Budgetary Highlights

Over the course of the year, the Township board made necessary budget adjustments to fund unanticipated expenses during the year. Budget amendments were made as a result of an estimated increase in attorney fees (\$62,000), paving of additional parking spots at the Senior Center (\$73,771), Flintridge/Pinetree roads repaving (\$200,000), and funding for an additional NOTA van (\$35,700). In addition, a budget adjustment was made for \$97,000 to fully fund employee compensated absences. However, due to the departments coming in under budget at year end, there was an overall favorable variance of \$208,417 from budget for the General Fund.

Capital Asset and Debt Administration

At the end of 2007, the Township had approximately \$61.3 million invested in a broad range of capital assets, including buildings, land, police and fire equipment, and water and sewer lines, among others. In addition, the Township has made certain investments in roads and drains within the Township.

The Township has no bonded outstanding debt as of the 2007 year end.

Economic Factors and Next Year's Budget

The Township's budget for next year calls for a reduction in property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Township needs to continue to monitor its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of the inflation rate or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow by less than inflation, before considering new property additions. We anticipate, at this time, that water and sewer rates will not increase during 2008.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (248) 391-0304, extension 104 or extension 108 or via the Township's website at clerksoffice@oriontownship.org.

Charter Township of Orion

Statement of Net Assets December 31, 2007

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 9,152,980	\$ 4,302,489	\$ 13,455,469
Investments (Note 3)	14,390,164	26,281,408	40,671,572
Receivables - Net (Note 4)	5,255,010	3,310,481	8,565,491
Internal balances	69,635	(69,635)	-
Prepaid costs and other assets	680,149	-	680,149
Restricted assets (Note 1)	-	24,272,328	24,272,328
Capital and lateral fees receivable	-	588,472	588,472
Capital assets - Nondepreciable (Note 5)	4,821,929	-	4,821,929
Capital assets - Subject to depreciation - Net (Note 5)	16,797,030	39,704,037	56,501,067
Total assets	51,166,897	98,389,580	149,556,477
Liabilities			
Accounts payable	1,092,237	1,174,306	2,266,543
Accrued and other liabilities	123,735	71,454	195,189
Deferred revenue (Note 4)	7,310,322	194,355	7,504,677
Noncurrent liabilities (Note 7):			
Due within one year	73,730	-	73,730
Due in more than one year	180,485	-	180,485
Total liabilities	8,780,509	1,440,115	10,220,624
Net Assets			
Invested in capital assets	21,618,959	39,704,037	61,322,996
Restricted:			
Fire protection	434,233	-	434,233
Liquor law enforcement	48,411	-	48,411
Police protection	2,256,765	-	2,256,765
Safety path	1,590,741	-	1,590,741
Capital projects (Note 1)	-	24,272,328	24,272,328
Unrestricted	16,437,279	32,973,100	49,410,379
Total net assets	\$ 42,386,388	\$ 96,949,465	\$ 139,335,853

Charter Township of Orion

	Program Revenues			
	Charges for	Operating	Capital Grants	
Expenses	Services	Grants and	and	
		Contributions	Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,467,361	\$ 263,253	\$ -	\$ 353,258
Public safety	6,454,023	1,004,939		93,038
Public works	1,750,407	20,416	31,480	280,331
Health and welfare	151,774	320	40,359	-
Community and economic development	339,521	31,316	7,227	-
Recreation and culture	1,407,412	198,792	10,944	85,296
Total governmental activities	12,570,498	1,519,036	90,010	811,923
Business-type activities - Water and sewer	9,158,540	7,018,457	536,425	1,493,721
Total primary government	<u>\$ 21,729,038</u>	<u>\$ 8,537,493</u>	<u>\$ 626,435</u>	<u>\$ 2,305,644</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Eagle Valley host fee				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2007

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,850,850)	\$ -	\$ (1,850,850)
(5,356,046)	-	(5,356,046)
(1,418,180)	-	(1,418,180)
(111,095)	-	(111,095)
(300,978)	-	(300,978)
(1,112,380)	-	(1,112,380)
(10,149,529)	-	(10,149,529)
-	(109,937)	(109,937)
(10,149,529)	(109,937)	(10,259,466)
7,172,957	-	7,172,957
2,203,850	-	2,203,850
1,356,274	2,829,930	4,186,204
232,582	-	232,582
28,828	4,251	33,079
10,994,491	2,834,181	13,828,672
844,962	2,724,244	3,569,206
41,541,426	94,225,221	135,766,647
\$ 42,386,388	\$ 96,949,465	\$ 139,335,853

Charter Township of Orion

Governmental Funds Balance Sheet December 31, 2007

	General Fund	Fire Protection Fund	Police Protection Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 9,152,980	\$ -	\$ -	\$ -	\$ 9,152,980
Investments (Note 3)	9,622,694	-	-	4,767,470	14,390,164
Receivables (Note 4):					
Property taxes	942,431	971,911	2,025,984	232,977	4,173,303
Interest	211,867	-	-	-	211,867
Other	-	1,959	-	21,063	23,022
Due from other governmental units	546,508	-	-	-	546,508
Due from other funds (Note 6)	824,430	4,897,993	4,356,042	7,942,141	18,020,606
Other assets	674,839	-	-	-	674,839
Prepaid expenses	5,310	-	-	-	5,310
Total assets	<u>\$ 21,981,059</u>	<u>\$ 5,871,863</u>	<u>\$ 6,382,026</u>	<u>\$ 12,963,651</u>	<u>\$ 47,198,599</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 245,123	\$ 32,142	\$ 604,769	\$ 210,203	\$ 1,092,237
Other liabilities	73,902	48,159	-	-	122,061
Due to other funds (Note 6)	13,678,198	3,517,978	-	754,795	17,950,971
Due to other governmental units	1,674	-	-	-	1,674
Deferred revenue (Note 4)	1,798,369	1,839,351	3,472,081	484,689	7,594,490
Total liabilities	15,797,266	5,437,630	4,076,850	1,449,687	26,761,433
Fund Balances					
Reserved for prepaid expenses	5,310	-	-	-	5,310
Reserved for liquor law enforcement	-	-	48,411	-	48,411
Designated fund balance (Note 9)	416,481	-	1,179,115	6,497,190	8,092,786
Unreserved, reported in:					
General Fund	5,762,002	-	-	-	5,762,002
Special Revenue Funds	-	434,233	1,077,650	219,591	1,731,474
Capital Projects Funds	-	-	-	4,797,183	4,797,183
Total fund balances	<u>6,183,793</u>	<u>434,233</u>	<u>2,305,176</u>	<u>11,513,964</u>	<u>20,437,166</u>
Total liabilities and fund balances	<u>\$ 21,981,059</u>	<u>\$ 5,871,863</u>	<u>\$ 6,382,026</u>	<u>\$ 12,963,651</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	21,618,959
Receivables are expected to be collected over several years and are not available to pay for current year expenditures net of reserve for uncollectibles	203,988
State revenue-sharing receivable is expected to be collected over the next year and is not available to pay for current year expenditures	380,490
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(254,215)

Net assets of governmental activities \$ 42,386,388

Charter Township of Orion

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2007

	General Fund	Fire Protection Fund	Police Protection Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Taxes and penalties	\$ 1,562,252	\$ 1,791,394	\$ 3,389,548	\$ 429,763	\$ 7,172,957
Licenses and permits	478,519	-	15,574	15,980	510,073
Eagle Valley fees	-	-	-	232,582	232,582
Federal grants - CDBG	62,768	93,038	-	-	155,806
State sources	2,172,080	-	-	-	2,172,080
Interest	708,300	86,877	209,042	352,055	1,356,274
Special assessments	-	-	-	49,607	49,607
Other	556,972	5,459	349,597	15,500	927,528
Total revenue	5,540,891	1,976,768	3,963,761	1,095,487	12,576,907
Expenditures					
General government	2,559,793	-	-	-	2,559,793
Public safety	951,664	1,370,736	3,739,223	53,233	6,114,856
Public works	742,219	-	-	-	742,219
Health and welfare	357,372	-	-	-	357,372
Recreation and culture	860,268	-	-	-	860,268
Capital outlay	82,956	14,388	1,404	913,065	1,011,813
Other	-	-	-	67,407	67,407
Total expenditures	5,554,272	1,385,124	3,740,627	1,033,705	11,713,728
Excess of Revenue Over (Under) Expenditures	(13,381)	591,644	223,134	61,782	863,179
Other Financing Sources (Uses)					
Transfer in	687,000	-	-	1,351,475	2,038,475
Transfer out	(662,894)	(686,514)	(2,067)	(687,000)	(2,038,475)
Contribution	197,692	-	-	72,596	270,288
Total other financing sources (uses)	221,798	(686,514)	(2,067)	737,071	270,288
Net Change in Fund Balances	208,417	(94,870)	221,067	798,853	1,133,467
Fund Balances - January 1, 2007	5,975,376	529,103	2,084,109	10,715,111	19,303,699
Fund Balances - December 31, 2007	<u>\$ 6,183,793</u>	<u>\$ 434,233</u>	<u>\$ 2,305,176</u>	<u>\$ 11,513,964</u>	<u>\$ 20,437,166</u>

Charter Township of Orion

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 1,133,467
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(705,403)
--	-----------

Revenue associated with contributed assets is recorded in the statement of activities; it is not reported in the funds	298,590
--	---------

Certain revenues are recorded in the statement of activities when the revenue is earned; they are not reported in the funds until collected or collectible within 60 days of year end	(18,426)
---	----------

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	171,734
--	---------

Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(35,000)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 844,962</u>
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Charter Township of Orion

Proprietary Funds Statement of Net Assets December 31, 2007

	Enterprise - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 4,302,489
Investments	26,281,408
Receivables - Net:	
Water and sewer billings	1,553,283
Interest	1,164,248
Special assessments	410,392
Other	182,558
Total current assets	33,894,378
Noncurrent assets:	
Restricted assets (Note 1)	24,272,328
Capital and lateral fees receivable	588,472
Property and equipment - Net (Note 5)	39,704,037
Total noncurrent assets	64,564,837
Total assets	98,459,215
Liabilities - Current liabilities	
Accounts payable	1,174,306
Due to other funds	69,635
Other liabilities	71,454
Deferred revenue	194,355
Total liabilities	1,509,750
Net Assets	
Investment in capital assets	39,704,037
Restricted (Note 1)	24,272,328
Unrestricted	32,973,100
Total net assets	<u><u>\$ 96,949,465</u></u>

Charter Township of Orion

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2007

	Enterprise - Water and Sewer Fund
Operating Revenue	
Water charges	\$ 3,640,470
Sewer charges	3,113,015
Water connection charges	75,908
Charges for services	30,081
State grants	536,425
Other operating revenue	<u>158,983</u>
Total operating revenue	7,554,882
Operating Expenses	
Cost of water and sewage disposal	5,344,420
Depreciation	1,761,360
Salaries and fringe benefits	967,153
Utilities	35,068
Insurance	43,764
Professional services	585,865
Tools and supplies	171,315
Repairs and maintenance	173,885
Other operating expenses	<u>75,710</u>
Total operating expenses	<u>9,158,540</u>
Operating Loss	(1,603,658)
Nonoperating Income	
Investment income	2,829,930
Gain on sale of assets	<u>4,251</u>
Income - Before capital contributions	1,230,523
Capital Contributions	
Capital and lateral charges	410,499
Developer contributions	<u>1,083,222</u>
Total capital contributions	<u>1,493,721</u>
Change in Net Assets	2,724,244
Net Assets - January 1, 2007	<u>94,225,221</u>
Net Assets - December 31, 2007	<u>\$ 96,949,465</u>

Charter Township of Orion

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2007

	Enterprise - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 6,693,146
Payments to suppliers	(6,406,778)
Payments to employees	(936,543)
Internal activity - Net payments to other funds	(94,959)
Other receipts	821,855
Net cash provided by operating activities	76,721
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(1,012,203)
Loss on sale of capital assets	4,251
Collection of special assessments	43,500
Capital and lateral charges	410,499
Net cash used in capital and related financing activities	(553,953)
Cash Flows from Investing Activities	
Investment income	3,287,140
Proceeds from sale of investment securities	(1,486,419)
Net cash provided by investing activities	1,800,721
Net Increase in Cash and Cash Equivalents	1,323,489
Cash and Cash Equivalents - Beginning of year	27,251,328
Cash and Cash Equivalents - End of year	\$ 28,574,817
Statement of Net Assets Classification of Cash and Cash Equivalents	
Cash and cash equivalents	\$ 4,302,489
Restricted assets - Cash and cash equivalents	24,272,328
Total cash and cash equivalents	\$ 28,574,817

Charter Township of Orion

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2007

	Enterprise - Water and Sewer
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,603,658)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	1,761,360
Changes in assets and liabilities:	
Receivables	55,166
Due to other funds	(94,959)
Accounts payable	23,249
Accrued and other liabilities	30,610
Deferred revenue	(95,047)
Net cash provided by operating activities	<u><u>\$ 76,721</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2007, the Water and Sewer Fund received \$1,083,222 of lines donated by developers.

Charter Township of Orion

Fiduciary Funds Statement of Assets and Liabilities - Agency Funds December 31, 2007

Assets - Cash and investments	<u>\$ 3,930,600</u>
Liabilities	
Due to other governmental units	\$ 2,800,105
Deposits and building bonds	1,086,806
Other liabilities	<u>43,689</u>
 Total liabilities	 <u>\$ 3,930,600</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Orion (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Orion:

Reporting Entity

The Charter Township of Orion is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township; there are no component units that should be included in the Township's financial statements.

Jointly Governed Organizations

The Township is a member of the North Oakland Transportation Authority, which provides transportation services to the residents of Orion Township, Addison Township, and Oxford Township. The participating communities provide annual funding for its operations. During the current year, the Township contributed approximately \$59,000 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the North Oakland Transportation Authority can be obtained from the administrative offices at 1370 South Lapeer Road, Oxford, MI 48371.

The Township is also a member of the Paint Creek Trailway Commission, which was organized in 1981 for the purposes of owning, developing, maintaining, and otherwise operating certain nonmotorized public trails within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township (8 percent), City of Rochester (11 percent), City of Rochester Hills (37 percent), and Oakland Township (44 percent), provide annual funding for its operations. During the current year, the Township contributed approximately \$34,800 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Paint Creek Trailways Commission can be obtained from the administrative offices at 4393 Collins Road, Rochester, MI 48306.

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township is also a member of the Polly Ann Trail Management Council, which was organized in 1997 for the purposes of owning, developing, maintaining, and otherwise operating nonmotorized public trails within the property contained within the boundaries of the Grand Trunk Western Railroad Company's railroad corridor. The Grand Trunk Western Railroad Company's railroad corridor is within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township, Oxford Township, Addison Township, and Villages of Oxford and Leonard provide annual funding for its operations. During the current year, the Township contributed approximately \$16,400 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Polly Ann Trailway Management Council can be obtained from the administrative offices at 23 E. Elmwood, Leonard, MI 48367.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Protection Fund - This fund accounts for all revenue and expenditures for the Township's fire operations, including millage collection. The Township fire department also provides fire fighting services to the communities of Lake Angelus and Oakland Township on a contractual basis.

Police Protection Fund - This fund accounts for the Township's police protection contracted with Oakland County. This protection is funded through a special millage.

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following proprietary fund:

Enterprise Fund (Water and Sewer Fund) - The Water and Sewer Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales of water and sewer services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township's 2006 tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended December 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the Township totaled \$1.83 billion (a portion of which is abated and a portion of which is captured by the Village of Lake Orion's DDA), on which taxes levied consisted of .8200 mills for operating purposes, 1.9832 mills for police services, .9916 mills for fire service, and .2382 for safety path. This resulted in \$1.48 million for operating, \$3.39 million for police services, \$1.79 million for fire service, and approximately \$411,000 for safety path. These amounts are recognized in the respective General, Special Revenue, and Capital Projects Funds financial statements as tax revenue.

The Township annually sells its delinquent real property taxes to the County, which then becomes responsible for collecting the taxes, and taking any uncollected tax parcels through the tax reversion process. The County purchases these taxes at 100 percent of face value, and in return the County is allowed to retain all interest and penalties it collects. The estimated present value of the future delinquent collections to the Township is less than the face value that has been received, because of the time value of money; however, the net present value to the County is greater than this amount, because of the statutory provision that allows the County to retain all penalties and interest. During the current year, the Township received \$462,563 from this sale. At the end of the tax reversion process (approximately three years), the County charges the Township back for any uncollected taxes. Historically, this amount has not been significant.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - According to the Township's ordinance, certain investments are restricted for future major repairs, replacements, or improvements to the water and sewer system. These amounts have been classified as restricted assets and fund balance has been restricted.

Capital Assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, drains, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	15 years
Road usage rights	20 years
Water system	40 years
Sewer system	40 years
Drains	40 years
Buildings and improvements	40 years
Safety path	15 years
Machinery, furniture, and equipment	5 years
Office equipment	5 years
Vehicles	5 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall - January 1, 2007	\$ (1,302,902)
Current year building permit revenue	745,364
Related expenses:	
Direct costs	(723,686)
Estimated indirect costs	<u>(84,479)</u>
Net current year activity	<u>(62,801)</u>
Cumulative shortfall - December 31, 2007	<u><u>\$ (1,365,703)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated 14 banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized investments in all of the allowable vehicles mentioned above. In addition, the Township's investment policy indicates that the treasurer shall diversify the investments by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than 80 percent of the total investment portfolio will be invested in a single security type or more than 30 percent with a single financial institution. Also, the Township's investments may not exceed 10 percent of the total assets of a single financial institution.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had approximately \$62,143,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investments	Fair Value	Weighted Average Maturity
Mutual funds	\$ 5,055,688	5.9 years
Mutual funds	1,008,438	14.5 years
Mutual funds	1,947,896	22.1 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy further limits its investment choices to commercial paper that is the top rating issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investments	Fair Value	Rating	Rating Organization
Mutual funds	\$ 7,241,045	AAA	Standard and Poor's
Mutual funds	74,020	AA	Standard and Poor's
Mutual funds	436,134	A	Standard and Poor's
Mutual funds	166,155	BBB	Standard and Poor's
Mutual funds	15,388	BB	Standard and Poor's
Mutual funds	79,279	Not rated	N/A
Pooled investment funds	7,027,904	Aaa	Moody's
Interlocal investments pools	4,055,629	Not rated	N/A

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 4 - Receivables

Receivables as of year end for the Township's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Fire Protection Fund	Police Protection Fund	Nonmajor Funds	Total	Enterprise - Water and Sewer
Receivables:						
Taxes	\$ 942,431	\$ 971,911	\$ 2,025,984	\$ 232,977	\$ 4,173,303	\$ -
State revenue sharing	546,508	-	-	-	546,508	-
Water and sewer billings	-	-	-	-	-	1,553,283
Special assessments	-	-	-	-	-	410,392
Interest and other	<u>211,867</u>	<u>1,959</u>	<u>-</u>	<u>21,063</u>	<u>234,889</u>	<u>1,346,806</u>
Total receivables	<u>\$ 1,700,806</u>	<u>\$ 973,870</u>	<u>\$ 2,025,984</u>	<u>\$ 254,040</u>	<u>\$ 4,954,700</u>	<u>\$ 3,310,481</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The deferred revenue in the governmental activities represents property taxes levied on December 1, 2007, but recognized as revenue in the year ending December 31, 2008, when the proceeds of the levy are budgeted and available for financing operations. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Property taxes	\$ 284,168	\$ 7,310,322

Business-type funds do not defer revenue that is unavailable and only record revenue that is earned. At the end of the current fiscal year, the business-type fund had deferred revenue recorded that was unearned. This unearned revenue represents accrued interest income that will only be due to the Township if the receivable is not paid off early. At the end of the current fiscal year, the deferred revenue recorded on the business-type balance sheet is as follows:

	Unavailable	Unearned
Interest	\$ -	\$ 194,355

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 2,324,721	\$ -	\$ -	\$ 2,324,721
Land improvements	2,497,208	-	-	2,497,208
Subtotal	4,821,929	-	-	4,821,929
Capital assets being depreciated:				
Land improvements	2,726,284	895,455	-	3,621,739
Buildings and improvements	6,256,664	126,239	22,500	6,360,403
Road usage rights	4,134,103	540,997	-	4,675,100
Drains	265,058	-	-	265,058
Safety path	18,254,357	303,553	-	18,557,910
Vehicles	3,457,717	-	14,115	3,443,602
Furniture and equipment	1,884,465	51,279	42,136	1,893,608
Subtotal	36,978,648	1,917,523	78,751	38,817,420
Accumulated depreciation:				
Land improvements	1,009,819	183,968	-	1,193,787
Buildings and improvements	1,820,868	157,432	281	1,978,019
Road usage rights	2,290,571	220,230	-	2,510,801
Drains	26,184	6,626	-	32,810
Safety path	10,350,569	1,237,339	-	11,587,908
Vehicles	2,887,345	351,115	14,115	3,224,345
Furniture and equipment	1,389,446	144,362	41,088	1,492,720
Subtotal	19,774,802	2,301,072	55,484	22,020,390
Net capital assets being depreciated	17,203,846	(383,549)	23,267	16,797,030
Net capital assets	<u>\$ 22,025,775</u>	<u>\$ (383,549)</u>	<u>\$ 23,267</u>	<u>\$ 21,618,959</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets (Continued)

	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Business-type Activities				
Capital assets being depreciated:				
Land improvements	\$ 228,112	\$ -	\$ -	\$ 228,112
Water system	32,464,008	639,878	-	33,103,886
Sewer system	34,779,051	1,360,688	-	36,139,739
Buildings	518,858	32,755	-	551,613
Machinery and equipment	700,227	-	14,117	686,110
Office equipment	62,715	-	-	62,715
Vehicles	506,633	62,105	44,743	523,995
Subtotal	69,259,604	2,095,426	58,860	71,296,170
Accumulated depreciation:				
Land improvements	124,006	11,354	-	135,360
Water system	10,416,888	798,555	-	11,215,443
Sewer system	17,719,733	897,908	-	18,617,641
Buildings	518,857	1,638	-	520,495
Machinery and equipment	573,501	24,741	14,117	584,125
Office equipment	62,715	-	-	62,715
Vehicles	473,932	27,165	44,743	456,354
Subtotal	29,889,632	1,761,361	58,860	31,592,133
Net capital assets	\$ 39,369,972	\$ 334,065	\$ -	\$ 39,704,037

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 153,802
Public safety	447,808
Public works	1,464,196
Health and welfare	22,346
Community and economic development	1,091
Recreation and culture	211,829
Total governmental activities	<u>\$ 2,301,072</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Recording Due From	Fund Recording Due To	Amount
General Fund	Safety Path Fund	\$ 418,707
	Host Fee Fund	336,088
	Water and Sewer Fund	<u>69,635</u>
Total General Fund		824,430
Fire Protection Fund	General Fund	4,897,993
Police Protection Fund	General Fund	4,356,042
Other nonmajor governmental funds:		
Keatington Mill Lake Lights Fund	General Fund	2,294
Elkhorn Lake Fund	General Fund	9,742
Square Lake Fund	General Fund	28,862
Square Lake Algae Fund	General Fund	10,771
Lake Orion Canal Fund	General Fund	14,567
Mill Lake Chloride	General Fund	1,598
Compensated Absence Fund	General Fund	191,475
Capital Improvement Fund	General Fund	4,030,258
Fire Capital Improvement Fund	Fire Protection Fund	3,517,978
Friendship Park Fund	General Fund	<u>134,596</u>
Total other nonmajor governmental funds		<u>7,942,141</u>
Total interfund receivables		<u>\$ 18,020,606</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. In addition, several funds do not have separate bank accounts and, therefore, the General Fund holds their respective cash and investments.

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Friendship Park	\$ 560,000
General Fund	Compensated Absence Fund	102,894
Fire Protection Fund	Fire Capital Improvement Fund	650,000
Fire Protection Fund	Compensated Absence Fund	2,067
Police Protection Fund	Compensated Absence Fund	36,514
Capital Improvement Fund	General Fund	660,000
Safety Path Improvement Fund	General Fund	27,000
Total		<u>\$ 2,038,475</u>

The transfer from the General Fund to the Friendship Park Fund represents the use of unrestricted resources to finance construction projects. The transfer from the Fire Protection Fund to the Fire Capital Improvement Fund represents the movement of resources to be used for fire capital improvements. The transfer from the Safety Path Improvement Fund to the General Fund represents the use of unrestricted resources to reimburse the General Fund for expenditures. The transfer from the Capital Improvement Fund to the General Fund represents the use of unrestricted resources to finance construction projects in the Friendship Park fund. Lastly, transfers to the Compensated Absence Fund were to record the actual compensated absence liability for each fund at December 31, 2007.

Note 7 - Noncurrent Liabilities

Noncurrent liabilities consist of the following:

	Beginning Balance	Additions	Ending Balance	Due Within One Year
Governmental Activities				
Self-insurance reserve	\$ 46,490	\$ 16,250	\$ 62,740	\$ -
Accumulated employee compensated absences	<u>172,725</u>	<u>18,750</u>	<u>191,475</u>	<u>73,730</u>
Total governmental activities	<u>\$ 219,215</u>	<u>\$ 35,000</u>	<u>\$ 254,215</u>	<u>\$ 73,730</u>

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits provided to employees, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Township.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 8 - Risk Management (Continued)

The Township estimates the liability for general claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are reflected in the government activities column on the statement of net assets. Changes in the estimated liability for the past two years were as follows:

	2007	2006
Estimated liability - Beginning of year	\$ 46,490	\$ 41,105
Estimated claims incurred, including changes in estimates	172,313	12,703
Claim payments	(156,063)	(7,318)
Estimated liability - End of year	<u>\$ 62,740</u>	<u>\$ 46,490</u>

Note 9 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds that management has designated:

	General Fund	Police Protection Fund	Fire Capital Improvement Fund	Capital Improvement Fund	Friendship Park Fund	Safety Path Improvement Fund
Designated for:						
Subsequent year's expenditures	\$ 369,878	\$ -	\$ 2,122,730	\$ 816,734	\$ 11,300	\$ 459,917
Future road widening	-	-	-	2,971,274	-	-
Repair and maintenance	46,603	-	-	13,300	-	101,935
Retention of officers	-	1,179,115	-	-	-	-
Total designated	<u>\$ 416,481</u>	<u>\$ 1,179,115</u>	<u>\$ 2,122,730</u>	<u>\$ 3,801,308</u>	<u>\$ 11,300</u>	<u>\$ 561,852</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2007

Note 10 - Contingent Liabilities

The Township has been involved in a legal case regarding the potential reimbursement of costs for sanitary sewer lines to citizens of a special assessment district. The Oakland County Circuit Court and the Court of Appeals upheld the Township's defense, which the citizens of the special assessment district are now appealing to the Supreme Court. The Township believes its strong defense will continue to prevail. Therefore, no liability has been recorded.

Note 11 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months from the time of employment. As established by the Township board of trustees, the Township contributes 11 percent of most employees' gross earnings (with varying rates for DPW employees).

The Township's contributions for each employee are fully vested after 20 months of continuous service. Employees may contribute to the plan on a voluntary basis. In accordance with these requirements, the Township contributed \$278,556 during the current year.

Note 12 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The plan allows the Township to contribute, on behalf of its eligible employees, portions of its employees' salary and/or compensated absences to meet its employees' postemployment healthcare needs. For the fiscal year ended December 31, 2007, the Township made payments for postemployment health benefits of \$40,110.

Upcoming Reporting Change - The Governmental Accounting Standards Board has released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions).

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Required Supplemental Information

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 1,478,860	\$ 1,478,860	\$ 1,562,252	\$ 83,392
Licenses and permits	692,750	692,750	478,519	(214,231)
Federal grants	117,902	117,902	62,768	(55,134)
State sources	2,219,498	2,219,498	2,172,080	(47,418)
Interest	508,000	508,000	708,300	200,300
Other	746,204	762,294	556,972	(205,322)
Contribution	-	197,700	197,692	(8)
Transfers in	31,000	691,000	687,000	(4,000)
Total revenue	5,794,214	6,668,004	6,425,583	(242,421)
Expenditures				
General government:				
Township Board	54,605	54,605	47,756	6,849
Supervisor	278,150	278,150	225,589	52,561
Elections	42,450	48,450	44,485	3,965
Assessing	428,650	428,650	354,527	74,123
Attorney fees	200,000	264,000	233,093	30,907
Finance	30,000	35,000	33,884	1,116
Clerk	467,715	470,015	415,308	54,707
Board of Review	5,000	5,000	3,102	1,898
Treasurer	325,550	325,550	317,013	8,537
Building and grounds	405,100	405,100	353,932	51,168
Drainage projects	31,000	41,150	23,870	17,280
Other general services	612,121	701,321	507,234	194,087
Total general government	2,880,341	3,056,991	2,559,793	497,198
Public safety:				
Zoning Board of Appeals	12,050	12,050	10,130	1,920
Building inspection	827,650	827,650	720,794	106,856
Planning Commission	356,750	356,750	220,488	136,262
Civil defense - Tornado sirens	400	400	252	148
Total public safety	1,196,850	1,196,850	951,664	245,186
Public works - Highways and streets	142,000	708,850	742,219	(33,369)

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Health and welfare:				
Community development block grant	\$ 117,902	\$ 117,902	\$ 57,292	\$ 60,610
Community services	35,000	70,725	52,017	18,708
Senior center	307,110	307,110	248,063	59,047
Total health and welfare	460,012	495,737	357,372	138,365
Recreation and cultural - Parks and recreation	967,961	1,008,197	860,268	147,929
Capital outlay	75,550	154,061	82,956	71,105
Transfers to other funds	71,500	672,924	662,894	10,030
Total expenditures	5,794,214	7,293,610	6,217,166	1,076,444
Excess of Revenue Over (Under) Expenditures	-	(625,606)	208,417	834,023
Fund Balance - January 1, 2007	5,975,376	5,975,376	5,975,376	-
Fund Balance - December 31, 2007	\$ 5,975,376	\$ 5,349,770	\$ 6,183,793	\$ 834,023

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended December 31, 2007

Fire Protection Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 1,789,392	\$ 1,789,392	\$ 1,791,394	\$ 2,002
Federal grants	-	-	93,038	93,038
State sources	1,500	1,500	-	(1,500)
Interest	80,000	80,000	86,877	6,877
Other	500	500	5,459	4,959
Total revenue	1,871,392	1,871,392	1,976,768	105,376
Expenditures				
Salaries and employee benefits	1,119,800	993,250	952,397	40,853
Supplies	36,800	145,700	139,787	5,913
Utilities	48,000	50,800	42,291	8,509
Repairs and maintenance	80,000	87,750	66,975	20,775
Insurance	118,300	118,300	84,296	34,004
Capital outlay	15,000	15,000	14,388	612
Other public safety expenditures	90,700	97,650	84,990	12,660
Transfers to other funds	377,500	686,550	686,514	36
Total expenditures	1,886,100	2,195,000	2,071,638	123,362
Excess of Expenditures Over Revenue	(14,708)	(323,608)	(94,870)	228,738
Fund Balance - January 1, 2007	529,103	529,103	529,103	-
Fund Balance - December 31, 2007	<u>\$ 514,395</u>	<u>\$ 205,495</u>	<u>\$ 434,233</u>	<u>\$ 228,738</u>

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended December 31, 2007

Police Protection Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 3,387,581	\$ 3,387,581	\$ 3,389,548	\$ 1,967
Licenses and permits	10,000	10,000	15,574	5,574
State sources	3,255	3,255	-	(3,255)
Interest	150,000	150,000	209,042	59,042
Other	308,055	308,055	349,597	41,542
Total revenue	3,858,891	3,858,891	3,963,761	104,870
Expenditures				
Salaries and employee benefits	3,690,800	3,663,450	3,584,483	78,967
Supplies	18,000	18,000	7,292	10,708
Utilities	62,000	62,000	61,690	310
Repairs and maintenance	6,000	6,000	2,186	3,814
Capital outlay	20,000	20,000	1,404	18,596
Other public safety expenditures	62,091	88,441	83,572	4,869
Transfers to other funds	-	2,100	2,067	33
Total expenditures	3,858,891	3,859,991	3,742,694	117,297
Excess of Revenue Over (Under) Expenditures	-	(1,100)	221,067	222,167
Fund Balance - January 1, 2007	2,084,109	2,084,109	2,084,109	-
Fund Balance - December 31, 2007	<u>\$ 2,084,109</u>	<u>\$ 2,083,009</u>	<u>\$ 2,305,176</u>	<u>\$ 222,167</u>

Charter Township of Orion

Note to Required Supplemental Information December 31, 2007

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, with the exception of operating transfers and capital contributions, which have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).” All annual appropriations lapse at fiscal year end. The annual budget is prepared by the Township Supervisor; a public hearing is held by September 30 and adopted by the Township Board by October 31 of the preceding year; subsequent amendments are approved by the Township Board. During the year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have any significant budget variances.

Deficits - The Township did not have any funds with a fund deficit at December 31, 2007.

Other Supplemental Information

Charter Township of Orion

	Special Revenue Funds						
	Keatington Mill Lake Lights Fund	Elkhorn Lake Fund	Square Lake Fund	Square Lake Algae Fund	Lake Orion Canal Fund	Mill Lake Chloride Fund	Compensated Absence Fund
Assets							
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property taxes receivable	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Due from other funds	<u>2,294</u>	<u>9,742</u>	<u>28,862</u>	<u>10,771</u>	<u>14,567</u>	<u>1,598</u>	<u>191,475</u>
Total assets	<u>\$ 2,294</u>	<u>\$ 9,742</u>	<u>\$ 28,862</u>	<u>\$ 10,771</u>	<u>\$ 14,567</u>	<u>\$ 1,598</u>	<u>\$ 191,475</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 191	\$ -	\$ -	\$ -	\$ -	\$ 267	\$ -
Due to other funds	-	-	-	-	-	-	-
Deferred revenue	<u>1,936</u>	<u>5,565</u>	<u>16,000</u>	<u>-</u>	<u>14,567</u>	<u>1,192</u>	<u>-</u>
Total liabilities	2,127	5,565	16,000	-	14,567	1,459	-
Fund Balances - Unreserved							
Designated for subsequent year's expenditures	-	-	-	-	-	-	-
Designated for repairs and maintenance	-	-	-	-	-	-	-
Designated for future road widening	-	-	-	-	-	-	-
Undesignated	<u>167</u>	<u>4,177</u>	<u>12,862</u>	<u>10,771</u>	<u>-</u>	<u>139</u>	<u>191,475</u>
Total fund balances	<u>167</u>	<u>4,177</u>	<u>12,862</u>	<u>10,771</u>	<u>-</u>	<u>139</u>	<u>191,475</u>
Total liabilities and fund balances	<u>\$ 2,294</u>	<u>\$ 9,742</u>	<u>\$ 28,862</u>	<u>\$ 10,771</u>	<u>\$ 14,567</u>	<u>\$ 1,598</u>	<u>\$ 191,475</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2007**

Capital Projects Funds					Total Nonmajor Governmental Funds
Host Fee Fund	Capital Improvement Fund	Friendship Park Fund	Fire Capital Improvement Fund	Safety Path Improvement Fund	
\$ 2,460,398	\$ -	\$ -	\$ -	\$ 2,307,072	\$ 4,767,470
-	-	-	-	232,977	232,977
16,563	-	-	-	4,500	21,063
-	4,030,258	134,596	3,517,978	-	7,942,141
<u>\$ 2,476,961</u>	<u>\$ 4,030,258</u>	<u>\$ 134,596</u>	<u>\$ 3,517,978</u>	<u>\$ 2,544,549</u>	<u>\$ 12,963,651</u>
\$ -	\$ 76,311	\$ 38,694	\$ 5,068	\$ 89,672	\$ 210,203
336,088	-	-	-	418,707	754,795
-	-	-	-	445,429	484,689
336,088	76,311	38,694	5,068	953,808	1,449,687
-	830,034	-	2,122,730	459,917	3,412,681
-	-	11,300	-	101,935	113,235
-	2,971,274	-	-	-	2,971,274
2,140,873	152,639	84,602	1,390,180	1,028,889	5,016,774
2,140,873	3,953,947	95,902	3,512,910	1,590,741	11,513,964
<u>\$ 2,476,961</u>	<u>\$ 4,030,258</u>	<u>\$ 134,596</u>	<u>\$ 3,517,978</u>	<u>\$ 2,544,549</u>	<u>\$ 12,963,651</u>

Charter Township of Orion

	Special Revenue Funds						
	Keatington Mill Lake Lights Fund	Elkhorn Lake Fund	Square Lake Fund	Square Lake Algae Fund	Lake Orion Canal Fund	Mill Lake Chloride Fund	Compensated Absence Fund
Revenue							
Taxes and penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Eagle Valley fees	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Special assessments	1,898	9,550	22,401	-	14,566	1,192	-
Other	-	-	-	-	-	-	-
Total revenue	1,898	9,550	22,401	-	14,566	1,192	-
Expenditures							
Utilities	2,187	-	8,971	800	-	-	-
Repairs and maintenance	-	9,000	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other	-	-	-	-	14,566	1,068	-
Total expenditures	2,187	9,000	8,971	800	14,566	1,068	-
Excess of Revenue Over (Under)							
Expenditures	(289)	550	13,430	(800)	-	124	-
Other Financing Sources (Uses)							
Operating transfer in	-	-	-	-	-	-	141,475
Operating transfer out	-	-	-	-	-	-	-
Contribution	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	141,475
Net Change in Fund Balances	(289)	550	13,430	(800)	-	124	141,475
Fund Balances (Deficit) - January 1, 2007	456	3,627	(568)	11,571	-	15	50,000
Fund Balances - December 31, 2007	<u>\$ 167</u>	<u>\$ 4,177</u>	<u>\$ 12,862</u>	<u>\$ 10,771</u>	<u>\$ -</u>	<u>\$ 139</u>	<u>\$ 191,475</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended December 31, 2007

Capital Projects Funds					
Host Fee Fund	Capital Improvement Fund	Friendship Park Fund	Fire Capital Improvement Fund	Safety Path Improvement Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 429,763	\$ 429,763
232,582	-	-	-	-	232,582
110,107	-	-	138,297	103,651	352,055
-	-	-	-	-	49,607
-	-	-	-	31,480	31,480
342,689	-	-	138,297	564,894	1,095,487
-	-	-	-	-	11,958
-	-	-	28,599	-	37,599
-	169,908	502,080	2,173	238,904	913,065
66	-	1,910	-	53,473	71,083
66	169,908	503,990	30,772	292,377	1,033,705
342,623	(169,908)	(503,990)	107,525	272,517	61,782
-	-	560,000	650,000	-	1,351,475
-	(660,000)	-	-	(27,000)	(687,000)
-	72,596	-	-	-	72,596
-	(587,404)	560,000	650,000	(27,000)	737,071
342,623	(757,312)	56,010	757,525	245,517	798,853
1,798,250	4,711,259	39,892	2,755,385	1,345,224	10,715,111
<u>\$ 2,140,873</u>	<u>\$ 3,953,947</u>	<u>\$ 95,902</u>	<u>\$ 3,512,910</u>	<u>\$ 1,590,741</u>	<u>\$ 11,513,964</u>

Charter Township of Orion

Other Supplemental Information Fiduciary Funds - Combining Statement of Net Assets Agency Funds December 31, 2007

	Trust and Agency Fund	Tax Collection Fund	Indianwood Lake Board Fund	Total
Assets - Cash	<u>\$ 1,102,965</u>	<u>\$ 2,824,447</u>	<u>\$ 3,188</u>	<u>\$ 3,930,600</u>
Liabilities				
Due to other governmental units	\$ -	\$ 2,712,248	\$ 87,857	\$ 2,800,105
Deposits and building bonds	1,086,806	-	-	1,086,806
Due to other funds	-	84,669	(84,669)	-
Other liabilities	<u>16,159</u>	<u>27,530</u>	<u>-</u>	<u>43,689</u>
Total liabilities	<u>\$ 1,102,965</u>	<u>\$ 2,824,447</u>	<u>\$ 3,188</u>	<u>\$ 3,930,600</u>

Charter Township of Orion

**Report to the Board of Trustees
December 31, 2007**



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

To the Board of Trustees
Charter Township of Orion
2525 Joslyn Road
Lake Orion, MI 48360

Dear Board Members:

We recently completed the audit of the basic financial statements of the Charter Township of Orion (the "Township") for the year ended December 31, 2007. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communications, summary of significant audit adjustments, recommendations, and informational comments which impact the Township:

	<u>Page</u>
Report on the Results of the Audit Process	2-5
Informational Comments	6-10

We are appreciative of the opportunity to be of service to the Charter Township of Orion. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

April 21, 2008



Plante & Moran, PLLC
27400 Northwestern Highway
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Report on the Results of the Audit Process

To the Board of Trustees
Charter Township of Orion
2525 Joslyn Road
Lake Orion, MI 48360

Dear Board Members:

We recently completed the audit of the basic financial statements of the Charter Township of Orion (the "Township") for the year ended December 31, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 17, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Township. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated March 24, 2008.

To the Board of Trustees
Charter Township of Orion

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. The Township did update certain procedures to facilitate timely communication to the clerk's office of significant transactions that occur to allow appropriate accounting to take place.

We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was related to the recording of liabilities and expenditures for the self-insurance reserve related to claims associated with property loss, torts, and errors and omissions.

Management's estimate of the amount owed to the Michigan Municipal Risk Management Authority risk pool is based on reported claims that have been incurred through December 31, 2007 but have not yet been paid by the Township. We evaluated the key factors and assumptions used to develop the estimates in determining that the amounts recorded are reasonable in relation to the financial statements taken as a whole.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are related to the self-insurance disclosures.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

To the Board of Trustees
Charter Township of Orion

Significant Audit Adjustments and Uncorrected Misstatements Deemed by Management to be Immaterial

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no significant identified audit adjustments that were not subsequently recorded by management. During the audit process, an adjustment was identified to record the revenue and receivable associated with expenditures incurred for the Flintridge and Pinetree Road projects. There were certain costs that the Township incurred related to these projects that will be reimbursed by the North Oakland Transportation Authority. In addition, the results of our audit identified another adjustment to revenue and receivables for expenditures incurred related to the S2 grant, not yet reimbursed. The Township properly recorded all expenditures related to these projects. However, the reimbursable amount that had not yet been received as of the audit date was not recorded. These entries have no effect on the statement of revenue, expenditures, and changes in fund balance, but only have an effect on the full accrual statement of activities within the financial statements.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated April 21, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Charter Township of Orion's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to commencement of the audit. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

To the Board of Trustees
Charter Township of Orion

This information is intended solely for the use of the board of trustees and management of the Charter Township of Orion and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moreau, PLLC

April 21, 2008

Informational Comments

Financial Results

For the year ended December 31, 2007, the Township's General Fund improved its financial position by approximately \$208,000. The Township realized this increase in fund balance even though overall revenues within the General Fund decreased by approximately 3.0 percent and expenditures that were planned for 2007 had an increase of approximately 11 percent over the prior year expenditures.

The main reason for the decrease in General Fund revenue was due to the Township receiving approximately \$234,000 less from licenses and permits than in 2006. The main reason for the increase in General Fund expenditures was due to an increase in public works expense of approximately \$478,000 related to Tri-Party projects in the current year. While much of the expenditure will be reimbursed, the revenue from the reimbursement is not available under the modified accrual basis of accounting and will have to be shown as revenue next year.

We continue to commend the Township board, as well as department heads and staff, for their efforts in budgeting and financial management. We continue to recommend that the Township develop a multi-year operational plan in order to ensure continued financial viability over the long run in this uncertain municipal environment.

Real Estate Market

Recent conditions in the real estate market are expected to have a negative impact on taxable values, even in growing communities such as the Charter Township of Orion. The good news is that a given drop in market values will not result in an equivalent drop in taxable values. On the other hand, if market values continue to decline, taxable value will ultimately be impacted. In other words, if we were to experience a theoretical 10 percent market decline three years in a row, the effect on taxable value (which would be different for each community) might be a 1 percent drop in the first year, 4 percent the next year, and 7 percent in the third. For this reason, it will be important to closely monitor taxable value, since this has the capacity to severely impact future years.

With the decline in the real estate market, building construction related fees have declined significantly as noted above in the financial results section. The Township continues to attempt to keep these fees competitive. We encourage the Township to continue to monitor the permit charges in relation to costs as the revenue related to construction is declining.

On the positive side, the Township continues to demonstrate a strong financial position, both in short-term as well as long-term measures. We are hopeful that the Township will weather the next few years.

State-shared Revenue

As mention above, the future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's fiscal year 2007/2008 budget. The outcome of the following matters will also impact revenue sharing:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The potential impact is that as counties come back into the revenue sharing formula, if the total statutory revenue-sharing pot does not grow accordingly, this will reduce the amount available for cities.
- The statutory revenue-sharing formula expired in 2007 and has been temporarily extended. Legislative action is required on this Act for appropriations to continue into 2008 and beyond. The current statutory formula expired in September 2007, but has been temporarily extended. It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Currently, the governor's budget for the State's fiscal year 2007/2008 is estimating an increase to revenue sharing of approximately 1.5 percent. With the uncertainty of revenue sharing, we recommend that the Township be conservative when estimating this revenue source.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the Charter Township of Orion has approximately \$91,000 at risk in its General Fund budget based on current funding levels.

Informational Comments (Continued)

Internal Controls

As mentioned in last year's letter, we are required to comply with Statement of Auditing Standards 112, *Communication of Internal Control Related Matters Noted in an Audit*. This standard lowers the threshold that is used to determine if a control deficiency must be reported to the board. In the prior year, we noted the following items that were recommended to be given further consideration by the Township to enhance internal controls:

- It was noted in the prior year that the payroll internal control environment could be enhanced by segregating the duties of creating and eliminating employees, as well as changing pay rates from the payroll processing function. During this year's audit, it was noted that this additional control has been put in place along with additional review procedures by the check signers to ensure employees and rates are valid.
- We also noted last year that access to blank checks was not limited during working hours and that controls over manual checks could be strengthened. During the current audit, it appeared that blank checks are now stored in a locked area and all checks are now processed through the accounts payable system versus being manually generated.
- The last item noted in the prior year was the lack of monthly documentation provided to the clerk's office from the treasurer's office related to certain investment managers only providing quarterly statements to the Township. While the Township was able to obtain monthly statements from these investment managers this year, the Township has not been able to receive documentation from these investment managers at the time the automatic monthly dividend wire transfer occurs. This documentation will ensure that the correct amount was released from the investment account according to the agreement with Orion Township and that the receiving bank has received the correct amount. Documentation at the time of transfer will help to identify any errors in a timely manner.

Legislative Issues and Other Matters

Property Tax Legislation

A series of House bills was introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property.

With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred to as the “uncapped” value or the “pop-up” value. As several published studies and reports have demonstrated, the treatment of “uncapped” values, or the “pop-up” amount, when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14, 2008 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not yet been voted on in the House.

Informational Comments (Continued)

In addition, House Bill 4215 passed the House on April 9, 2008, creating PA 96, which allows property owners to have two principal residence (homestead) exemptions in certain situations. This new law amends MCL 211.7cc of the General Property Tax Act. The legislation is designed to allow Michigan residents to maintain the principal residence status on their first home when they are unable to sell that home before they move into a new residence. The property owner must file a form for each residence/property with the local assessor by May 1, 2008 in order to receive the exemption for this tax year. In order to qualify, the owner of the residence/property must be a Michigan resident, the home in question must have been the principal residence prior to the owners moving out, the vacated home must remain unoccupied and may not be rented in order to receive the exemption, and the property must be offered for sale. This homestead exemption may be renewed for an additional two years after the initial filing, but requires the property owner to notify the assessor by December 31 of each year to receive the tax break.

Investment Reporting

Public Act 213 of 2007 has been signed by the governor which now requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution with maturity date and interest rates.

We would like to thank you and your staff for the courtesy and cooperation extended to us during the audit. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.